



**Bernie Orozco**, Director  
State Governmental Affairs  
916.492-4244

January 31, 2003

California Power Authority  
901 P Street, Suite 142A  
Sacramento, CA 95814

**RE: Sempra Energy Utilities' Comments on the Draft 2003 Energy Resources Investment Plan**

Dear Members:

By this letter, San Diego Gas & Electric Company and Southern California Gas Company, collectively, "Sempra Energy Utilities" (SEU) provide comments on the California Power Authority's (CPA) Draft "Energy Resource Investment Plan" dated January 17, 2003. The SEU appreciate being given the opportunity to comment on this Draft Plan.

The effort the CPA put into developing this Plan is noteworthy and a helpful contribution to the overall dialogue on the adequacy of resources. To the extent that the CPA can identify a clear need to provide financing to facilitate cost-effective and competitive energy supply additions or demand-side programs in its backstop role, that support is welcome. However, the SEU do not believe the CPA is currently positioned to reach the conclusion that such support is needed, or that a CPA solution is the best alternative to fill such a need if one exists. The undertaking the Draft Plan contemplates -- from \$690 million to \$1.38 billion, or more -- is very substantial, and the term of commitment the Draft Plan discusses -- 20 years -- is very long. The SEU believe that it is an important prerequisite to any undertaking of that size to engage in rigorous planning analysis to ensure that the investment is justified, and is the most efficient and cost-effective use of funds. For example, SDG&E would ordinarily engage in a detailed resource planning analysis and a competitive procurement process before it would be prepared to commit to any long-term acquisition of power.

The SEU have no comments on the Draft Plan's proposed financing and commitments to serve the public sector, as we do not have access to information concerning public sector needs or the costs of alternatives that may be available to the public sector. We leave it to the affected entities to comment in those areas.

With respect to parts of the Draft Plan that could affect the SEU's customers, we have concerns because we did not see evidence of the rigorous analysis required to support the Draft Plan's assumptions, conclusions, recommendations, and proposed investments. Accordingly, we believe that the Draft Plan's recommendations in this respect are premature.

### **Specific Comments on Assumptions and Analysis:**

- The Draft Plan concludes that it would be cost beneficial to invest up to \$250 million in 300 MW of peaking generation, and \$200-600 million in a 500 MW base load power plant. The Draft Plan included no resource planning or cost-effectiveness analysis that would lead to the conclusion that these alternatives are in the best interests of customers and are the most efficient and competitive, low-cost solutions. The SEU do not believe it prudent to decide to invest in excess of a half billion dollars in generation without this kind of analysis to ensure that taxpayer money is wisely administered.
- The Draft Plan relies on its recommended target reserve margin of 17% to support the capacity commitments it proposes. The CPA developed that target without an analysis of actual resource plans and with the full recognition that the proper level of reserves for an individual load serving entity will depend on the results of such an analysis. The necessary detailed analysis of appropriate reserve margins is currently underway in several other forums within California and the CPA should take advantage of these forthcoming determinations before drawing conclusions on investment recommendations. Accordingly, we believe that the Draft Plan's conclusion that the CPA should finance large sums of money in specific generation projects is premature.
- The Draft Plan reaches its conclusions on the need for adding certain specific resources, based in part on its assumption that supply without current contracts is not reliable. The Draft Plan indicates that there are 8,000-15,000 MW of resources that could be available, but are without contracts. The SEU disagree with the Draft Investment Plan implication that the lack of existing long-term contracts associated with these assets is a negative. To the contrary, it appears to represent a positive opportunity for load serving entities to negotiate purchases on favorable terms and to acquire resources at competitive prices through the process envisioned by AB 57.
- The Draft Plan makes its recommendations based, in part, on its assertion that "the commitment of all the IOUs to renewable resources remains somewhat cloudy." This statement is incorrect as applied to SDG&E. SDG&E's commitment to contracting for renewables far exceeds the statutory requirements of the Renewable Portfolio Standard (RPS), and is not at all "cloudy." SDG&E has reflected its commitment to renewables in tangible terms through its procurement efforts: while the RPS required SDG&E to acquire renewables amounting to 1% of sales for 2003, and 2% of sales for 2004, SDG&E contracted to acquire renewable resources amounting to nearly 4% of sales for 2003, and close to 7% of sales for 2004, in addition to renewing certain existing renewables contracts. Clearly SDG&E's actions in pursuing renewables is a positive example that should be singled out for recognition.

### **Specific Comments on Coordination and Implications of Recommendations:**

The timing of the Draft Investment Plan financing recommendations is premature and may lead to sub-optimal commitments. The CPUC is about to embark on its consideration of long-term resource and procurement plans for each of the IOUs. The CPUC has required the utilities to take into account the kinds of factors raised in the Draft Investment Plan, as well as additional factors in

- developing recommended resource plans and procurement strategies. The outcome of this process and the ensuing implementation of the adopted acquisition strategy for each utility will provide the most important information on (i) whether the projects identified in the Draft Plan are needed, (ii) whether those projects will be cost-effective and competitively superior alternatives, and (iii) whether CPA financing is needed for those or other projects identified in the adopted resource plans.
- The Draft Plan's reliance on the creation of "power purchase agreements" is vague and its relationship with the AB 57 (Chapter 835-2002) process is undefined. The Draft Plan identifies a role of the CPA as to assist in "developing take-or-pay power purchase agreements" with terms of 20 years or more. The Draft Plan does not indicate who it expects would buy the power under these contracts, how the contracts would be developed, how they would be integrated with the implementation of utility procurement plans under AB 57, or the extent to which they would be used to facilitate municipal utility needs rather than investor-owned utility needs. SDG&E has ongoing obligations under AB 57 to engage in resource planning and acquisition, and has already been allocated power from contracts that were entered into by the California DWR. SDG&E is responsible to ensure that any resource commitment on its customers' behalf is in their best interests and will conduct auctions and negotiate terms and conditions to accomplish that outcome. Contracts that the CPA has in mind might involve resources that do not meet SDG&E's customers' needs, might involve terms and conditions not in SDG&E's customers' best interests, and would thereby be unacceptable to SDG&E. In any event, there are a myriad of significant factual and legal issues that would need to be addressed before plans regarding "power purchase agreements" could be implemented. The Draft Plan should therefore omit any references to purchase contracts until the relevant material issues have been explored in more detail.

#### **Sempra Energy Utilities Recommendations:**

The Draft Plan is premature as it relates to financing of resources to meet the needs of customers of the IOUs. The CPA should defer consideration of investment alternatives related to the IOUs until it can consider the results of the AB 57 process that the utilities must conduct under CPUC review and oversight.

Sincerely,